

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

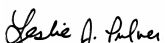
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

# **City of South Lyon, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2006**

**City of South Lyon, Michigan**  
**Financial Report**  
**June 30, 2006**

**Mayor John Doyle, Jr.**

**City Council**

Ray Dryer, Mayor Pro Tem

Glenn Kivell

Erin Kopkowski

Patricia Maida

Ron Morelli

Harvey Wedell

**City Administration**

City Manager

City Clerk/Treasurer

Police Chief

Fire Chief

Water and Wastewater Treatment Superintendent

Department of Public Works Superintendent

Director of Community and Economic Development

Building/Zoning Inspector

Building Inspector

Bookkeeper

Rodney L. Cook

Julie C. Zemke

Lloyd Collins

Craig Kaska

Robert Martin

Steve Renwick

Kristen Cunningham

Joe Veltri

Michael Jakubowski

Lori Mosier

# City of South Lyon, Michigan

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# City of South Lyon, Michigan

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## Independent Auditor's Report

To the Members of the City Council  
City of South Lyon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Lyon, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of South Lyon, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Lyon, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparisons are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Members of the City Council  
City of South Lyon, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South Lyon, Michigan's basic financial statements. The accompanying other supplemental information and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City of South Lyon, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moreau, PLLC*

August 18, 2006

# **City of South Lyon, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the City of South Lyon, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

### **Financial Highlights**

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- Revenues exceeded expenditures in the General Fund, thus raising fund balance by approximately \$158,000. This was due primarily to all city departments making an effort to control expenditures, delay some expenditures, and generally dealing with the declining Michigan economy.
- Total net assets related to the City's governmental activities increased by approximately \$5,607,000.
- The construction of the new wastewater treatment plant proceeded as planned. The plant became operational in May, 2006. Purchase list items are being completed and the City has roughly one year from substantial completion to troubleshoot problems in operation.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

# City of South Lyon, Michigan

## Management's Discussion and Analysis (Continued)

### The City of South Lyon as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2006 and 2005 (in thousands):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current assets	\$ 8,919	\$ 8,315	\$ 9,881	\$ 10,194	\$ 18,800	\$ 18,509
Noncurrent assets	25,215	20,640	33,121	31,020	58,336	51,660
Total assets	34,134	28,955	43,002	41,214	77,136	\$ 70,169
<b>Liabilities</b>						
Current liabilities	1,936	2,146	1,399	1,273	3,335	3,419
Long-term liabilities	2,504	2,722	16,948	15,415	19,452	18,137
Total liabilities	4,440	4,868	18,347	16,688	22,787	21,556
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	22,333	17,542	15,418	15,526	37,751	33,068
Restricted	1,767	2,082	7,849	7,108	9,616	9,190
Unrestricted	5,594	4,463	1,388	1,892	6,982	6,355
Total net assets	<u>\$ 29,694</u>	<u>\$ 24,087</u>	<u>\$ 24,655</u>	<u>\$ 24,526</u>	<u>\$ 54,349</u>	<u>\$ 48,613</u>

The City's combined net assets increased 11.8 percent from a year ago - increasing from \$48,612,844 to \$54,348,884. Net assets of both the governmental and business-type activities increased during the year. This is an indication that the taxpayers and users of City services paid the full cost of providing those services in the current year. This measurement is one of the goals of full accrual financial statement presentation.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, did not change significantly for the governmental activities. The current level of unrestricted net assets related to governmental activities is a surplus of \$5,594,482.

# City of South Lyon, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the years ended June 30, 2006 and 2005 (in thousands):

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Net Assets</b> - Beginning of year	\$ 24,087	\$ 19,061	\$ 24,526	\$ 23,879	\$ 48,613	\$ 42,940
<b>Revenue</b>						
Program revenue:						
Charges for services	779	775	2,083	2,007	2,862	2,782
Operating grants and contributions	682	565	-	-	682	565
Capital grants and contributions	4,534	4,701	472	438	5,005	5,139
General revenue:						
Property taxes	4,795	3,888	331	861	5,126	4,749
State-shared revenue	850	859	-	-	850	859
Interest	257	126	246	138	502	264
Transfers and other revenue	53	56	(53)	(56)	-	-
Total revenue	11,950	10,970	3,078	3,388	15,028	14,358
<b>Program Expenses</b>						
General government	1,328	1,158	-	-	1,328	1,158
Public safety	2,655	2,563	-	-	2,655	2,563
Public works	1,565	1,864	-	-	1,565	1,864
Community and economic development	347	126	-	-	347	126
Cultural and recreation	273	41	-	-	273	41
Interest on long-term debt	174	192	-	-	174	192
Water and sewer	-	-	2,949	2,741	2,949	2,741
Total program expenses	6,343	5,944	2,949	2,741	9,292	8,685
<b>Change in Net Assets</b>	5,607	5,026	129	647	5,736	5,673
<b>Net Assets</b> - End of year	<b>\$ 29,694</b>	<b>\$ 24,087</b>	<b>\$ 24,655</b>	<b>\$ 24,526</b>	<b>\$ 54,349</b>	<b>\$ 48,613</b>

### Governmental Activities

The City's total governmental revenues increased by approximately \$979,000, due to continued residential, commercial, and industrial activity. That is a 9 percent increase from the prior year.

# **City of South Lyon, Michigan**

## **Management's Discussion and Analysis (Continued)**

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### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Fund. We provide water and sewage treatment to residents from our own system. The year 2005 was a drier year than 2006, which resulted in decreased usage in the water system in 2006. The City Council did not increase the water and sewer rate during 2005-2006.

### **The City of South Lyon's Funds**

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The South Lyon City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as major and local road maintenance and debt service. The City's major funds for 2006 include the General Fund, the Capital Improvements Fund, the Building Authority Fund, and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant is the police department, which incurred expenses of approximately \$2,005,000 in 2006. Other government services accounted for in the General Fund include general government, the department of public works, the fire department, and recreation.

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the budget on four occasions to account for changes made necessary due to unanticipated events or situations requiring increased expenditures for operational and capital expenditures.

City departments overall stayed below budget. The City maintained total expenditures \$127,000 below budget.

### **Capital Asset and Debt Administration**

At the end of 2006, the City had approximately \$58,000,000 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in roads within the City.

# **City of South Lyon, Michigan**

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## **Management's Discussion and Analysis (Continued)**

The water and wastewater treatment department made major investments during the 2005-2006 fiscal year as a result of the ongoing construction of the new wastewater treatment plant. To date, approximately \$18,275,000 of new construction costs have been capitalized related to the treatment plant, including \$2,619,315 during the 2005-2006 fiscal year. The construction is being financed by a loan from the State of Michigan Revolving Fund that will be paid over 20 years beginning in October 2006.

### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for next year takes into consideration another potential decrease in state-shared revenues; however, given our healthy fund balance, we do not anticipate any reductions in service levels based on potential revenue reductions. Over the years, the City has had the flexibility to adjust various ad valorem tax rates as necessary and as determined by Headlee, Truth in Taxation, and Proposal A. The state-wide Tax Reform Acts limit growth in taxable value to inflation or 5 percent, whichever is less. Inflation rates in recent years have only been in the range of 1.6 percent to 3.2 percent.

Due to the continuing residential growth within the City's corporate boundaries, our taxable tax base has continued to increase between \$15,000,000 and \$28,000,000 annually. Additionally, as existing homes are sold, their taxable value becomes "uncapped" at the time of exchange and is increased to the higher State Equalized Value. After the exchange, the annual limitations required by the Headlee Amendment and Proposal A begin to apply from that date forward; however, when there are exchanges, the City may experience an increase in taxable value on those properties.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city manager's office.

# City of South Lyon, Michigan

## Statement of Net Assets June 30, 2006

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 8,191,460	\$ 1,366,498	\$ 9,557,958	\$ 108,517
Receivables (Note 4)	1,064,734	658,991	1,723,725	-
Internal balances	(489,246)	489,246	-	-
Inventories	-	1,987	1,987	-
Prepaid costs and other assets	151,863	23,054	174,917	-
Restricted assets (Note 1)	-	7,341,433	7,341,433	-
Capital assets (Note 5):				
Not being depreciated	3,310,563	18,422,774	21,733,337	-
Depreciable - Net	21,904,226	14,698,384	36,602,610	-
<b>Total assets</b>	<b>34,133,600</b>	<b>43,002,367</b>	<b>77,135,967</b>	<b>108,517</b>
<b>Liabilities</b>				
Accounts payable	140,259	423,369	563,628	230
Accrued and other liabilities	401,394	220,713	622,107	-
Deferred revenue (Note 4)	650,160	-	650,160	-
Long-term debt (Note 7):				
Due within one year	744,324	755,000	1,499,324	-
Due in more than one year	2,503,703	16,948,161	19,451,864	-
<b>Total liabilities</b>	<b>4,439,840</b>	<b>18,347,243</b>	<b>22,787,083</b>	<b>230</b>
<b>Net Assets</b>				
Invested in capital assets -				
Net of related debt	22,332,597	15,417,997	37,750,594	-
Restricted (Note 11)	1,766,681	7,848,791	9,615,472	-
Unrestricted	5,594,482	1,388,336	6,982,818	108,287
<b>Total net assets</b>	<b>\$ 29,693,760</b>	<b>\$ 24,655,124</b>	<b>\$ 54,348,884</b>	<b>\$ 108,287</b>

# City of South Lyon, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,327,973	\$ 483,184	\$ 20,000	\$ -
Public safety	2,654,811	82,207	-	-
Public works	1,565,263	65,625	491,982	4,533,815
Community and economic development	347,205	148,396	170,043	-
Cultural and recreation	273,240	-	-	-
Interest on long-term debt	174,446	-	-	-
Total governmental activities	6,342,938	779,412	682,025	4,533,815
Business-type activities - Water and sewer	2,948,901	2,082,594	-	471,606
Total primary government	<u>\$ 9,291,839</u>	<u>\$ 2,862,006</u>	<u>\$ 682,025</u>	<u>\$ 5,005,421</u>
Component unit - Downtown Development Authority	<u>\$ 47,538</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Transfers				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - July 1, 2005</b>				
<b>Net Assets - June 30, 2006</b>				

**Statement of Activities**  
**Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (824,789)	\$ -	\$ (824,789)	\$ -
(2,572,604)	-	(2,572,604)	-
3,526,159	-	3,526,159	-
(28,766)	-	(28,766)	-
(273,240)	-	(273,240)	-
(174,446)	-	(174,446)	-
(347,686)	-	(347,686)	-
-	(394,701)	(394,701)	-
(347,686)	(394,701)	(742,387)	-
-	-	-	(47,538)
4,794,934	330,920	5,125,854	46,253
850,197	-	850,197	-
256,835	245,541	502,376	2,498
52,720	(52,720)	-	-
5,954,686	523,741	6,478,427	48,751
5,607,000	129,040	5,736,040	1,213
24,086,760	24,526,084	48,612,844	107,074
<b>\$ 29,693,760</b>	<b>\$ 24,655,124</b>	<b>\$ 54,348,884</b>	<b>\$ 108,287</b>

# City of South Lyon, Michigan

## Governmental Funds Balance Sheet June 30, 2006

	General Fund	Special Revenue Fund - Capital Improvements Fund	Debt Service Fund - Building Authority Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 3,023,530	\$ 3,088,292	\$ 185,707	\$ 1,893,931	\$ 8,191,460
Receivables (Note 4):					
Customers	186,304	-	-	-	186,304
South Lyon Community Schools	-	-	650,160	-	650,160
Other governmental units	147,034	-	-	81,236	228,270
Due from other funds (Note 6)	115,413	-	-	13,246	128,659
Other current assets	141,117	-	-	10,746	151,863
<b>Total assets</b>	<b>\$ 3,613,398</b>	<b>\$ 3,088,292</b>	<b>\$ 835,867</b>	<b>\$ 1,999,159</b>	<b>\$ 9,536,716</b>
<b>Liabilities</b>					
Accounts payable	\$ 100,008	\$ 36,339	\$ -	\$ 3,912	\$ 140,259
Accrued and other liabilities	133,091	-	-	3,350	136,441
Due to other funds (Note 6)	13,246	595,455	-	9,204	617,905
Due to other governmental units	15,845	-	-	-	15,845
Cash bonds and deposits	226,391	-	-	-	226,391
Deferred revenue (Note 4)	-	-	650,160	-	650,160
<b>Total liabilities</b>	<b>488,581</b>	<b>631,794</b>	<b>650,160</b>	<b>16,466</b>	<b>1,787,001</b>
<b>Fund Balances</b>					
Reserved for future cemetery expenditures	-	-	-	598,049	598,049
Unreserved - Reported in major funds	3,013,521	2,456,498	185,707	-	5,655,726
Unreserved - Reported in nonmajor funds:					
Special Revenue Funds	-	-	-	1,160,700	1,160,700
Debt Service Funds	-	-	-	8,938	8,938
Unreserved - Designated for subsequent year's expenditures:					
General Fund	111,296	-	-	-	111,296
Special Revenue Funds	-	-	-	166,666	166,666
Debt Service Funds	-	-	-	48,340	48,340
<b>Total fund balances</b>	<b>3,124,817</b>	<b>2,456,498</b>	<b>185,707</b>	<b>1,982,693</b>	<b>7,749,715</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,613,398</b>	<b>\$ 3,088,292</b>	<b>\$ 835,867</b>	<b>\$ 1,999,159</b>	<b>\$ 9,536,716</b>

## Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2006

<b>Fund Balance - Total Governmental Funds</b>	<b>\$ 7,749,715</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	25,214,789
Accrued interest on long-term liabilities is not reported in the funds	(22,717)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(3,248,027)
<b>Net Assets - Governmental Activities</b>	<b>\$ 29,693,760</b>

# City of South Lyon, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Special Revenue Fund - Capital Improvements Fund	Debt Service Fund - Building Authority Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 3,199,793	\$ 1,335,127	\$ 215,631	\$ 44,383	\$ 4,794,934
Federal sources	20,000	-	-	85,000	105,000
State sources	850,197	-	-	491,982	1,342,179
Local sources	-	11,817	148,396	-	160,213
Licenses and permits	134,069	-	-	-	134,069
Charges for services	302,408	-	-	54,000	356,408
Fines and forfeitures	43,399	-	-	-	43,399
Interest and other	276,215	76,756	5,427	78,546	436,944
Total revenues	4,826,081	1,423,700	369,454	753,911	7,373,146
<b>Expenditures</b>					
General government	1,171,468	-	-	-	1,171,468
Public safety	2,526,290	-	-	-	2,526,290
DPW, cemetery, and road improvements	825,810	668,407	-	690,851	2,185,068
Cultural and recreation	150,974	-	-	-	150,974
Capital outlay	-	-	-	200,000	200,000
Debt service	-	-	402,579	153,504	556,083
Total expenditures	4,674,542	668,407	402,579	1,044,355	6,789,883
<b>Excess of Revenues Over (Under) Expenditures</b>	151,539	755,293	(33,125)	(290,444)	583,263
<b>Other Financing Sources (Uses)</b>					
Operating transfers in from other funds (Note 6)	-	85,000	-	353,783	438,783
Operating transfers out to other funds (Note 6)	-	(250,087)	-	(135,976)	(386,063)
Operating transfers in from component unit (Note 6)	6,500	-	37,756	-	44,256
Proceeds from issuance of long-term debt	-	-	-	200,000	200,000
Total other financing sources (uses)	6,500	(165,087)	37,756	417,807	296,976
<b>Net Change in Fund Balances</b>	158,039	590,206	4,631	127,363	880,239
<b>Fund Balances - July 1, 2005</b>	2,966,778	1,866,292	181,076	1,855,330	6,869,476
<b>Fund Balances - June 30, 2006</b>	<u>\$ 3,124,817</u>	<u>\$ 2,456,498</u>	<u>\$ 185,707</u>	<u>\$ 1,982,693</u>	<u>\$ 7,749,715</u>

# City of South Lyon, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>880,239</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		52,868
--	--	--------

Dedicated roads donated by developers are not recorded in the fund-based statements		4,521,998
--	--	-----------

Proceeds from issuance of long-term debt is recorded as revenue in the fund-based statements		(200,000)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		415,710
---	--	---------

Change in accrued interest on long-term debt is not recorded in the governmental funds		1,452
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Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities		<u>(65,267)</u>
--	--	-----------------

<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>5,607,000</u></b>
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# City of South Lyon, Michigan

## Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Net Assets June 30, 2006

### Assets

#### Current assets:

Cash and cash equivalents (Note 3)	\$ 1,366,498
Customer receivables (Note 4)	658,991
Due from other funds (Note 6)	595,455
Other current assets	<u>23,054</u>

Total current assets 2,643,998

#### Noncurrent assets:

Other long-term assets	1,987
Restricted assets (Note 1)	7,341,433
Capital assets (Note 5)	<u>33,121,158</u>

Total noncurrent assets 40,464,578

Total assets 43,108,576

### Liabilities

Accounts payable	423,369
Accrued and other liabilities	220,713
Due to other funds (Note 6)	106,209
Current portion of long-term debt (Note 7)	<u>755,000</u>

Total current liabilities 1,505,291

Long-term debt - Net of current portion (Note 7) 16,948,161

Total liabilities 18,453,452

### Net Assets

Investment in capital assets - Net of related debt	15,417,997
Restricted	7,848,791
Unrestricted	<u>1,388,336</u>

Total net assets \$ 24,655,124

# City of South Lyon, Michigan

## **Proprietary Fund** **Enterprise Fund - Water and Sewer Fund** **Statement of Revenue, Expenses, and Changes in Net Assets** **Year Ended June 30, 2006**

<b>Operating Revenues</b>	
Water sales	\$ 637,126
Sewage disposal	839,821
Refuse collection	442,746
Billing and collection charges	83,108
Hydrant rental	25,050
Penalties assessed	23,389
	<hr/>
Total operating revenues	2,051,240
<b>Operating Expenses</b>	
Personnel services:	
Salaries and wages	575,713
Fringe benefits	305,611
Equipment repairs and maintenance	163,337
Public utilities	371,173
Refuse collection	442,001
Depreciation and amortization	738,210
Other services and charges	109,968
Supplies	189,535
Insurance	38,896
Other	14,457
	<hr/>
Total operating expenses	2,948,901
<b>Operating Loss</b>	(897,661)
<b>Nonoperating Revenue</b>	
Property taxes	330,920
Interest income	245,541
Other income	36,108
	<hr/>
Total nonoperating revenue	612,569
<b>Loss - Before other financing uses and capital contributions</b>	(285,092)
<b>Other Financing Uses - Operating transfers out (Note 6)</b>	(52,720)
<b>Capital Contributions</b>	466,852
	<hr/>
<b>Change in Net Assets</b>	129,040
<b>Net Assets - July 1, 2005</b>	24,526,084
	<hr/>
<b>Net Assets - June 30, 2006</b>	<b>\$ 24,655,124</b>

# City of South Lyon, Michigan

## Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2006

### Cash Flows from Operating Activities

Receipts from customers	\$ 2,032,915
Payments to suppliers	(1,548,466)
Payments to employees	(843,731)
Internal activity - Payments to other funds	<u>106,659</u>
Net cash used in operating activities	(252,623)

### Cash Flows from Capital and Related Financing Activities

Collection of customer assessments	466,852
Proceeds from long-term debt	2,347,133
Principal and interest paid on long-term debt	(455,584)
Property tax revenue received	330,920
Operating transfers to Debt Service Funds	(52,720)
Purchase of capital assets	<u>(2,829,821)</u>
Net cash used in capital and related financing activities	(193,220)

**Cash Flows from Investing Activities** - Interest received on investments 281,649

**Net Decrease in Cash and Cash Equivalents** (164,194)

**Cash and Cash Equivalents** - July 1, 2005 8,872,125

**Cash and Cash Equivalents** - June 30, 2006 \$ 8,707,931

### Balance Sheet Classification of Cash and Cash Equivalents

Cash and cash equivalents	\$ 1,366,498
Restricted assets (Note 3)	<u>7,341,433</u>
Total	<u><u>\$ 8,707,931</u></u>

### Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (897,661)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	738,209
Changes in assets and liabilities:	
Receivables	(16,866)
Due from other funds	3,727
Prepaid and other assets	(1,459)
Accounts payable	(219,098)
Accrued and other liabilities	37,593
Due to other funds	<u>102,932</u>
Net cash used in operating activities	<u><u>\$ (252,623)</u></u>

There were no noncash transactions during the year ended June 30, 2006.

The Notes to Financial Statements are an  
Integral Part of this Statement.

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of South Lyon, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

#### **Reporting Entity**

The City is governed by an elected seven-member council. The accompanying financial statements present the City of South Lyon, Michigan and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City and separate financial statements are not issued for the component unit.

The South Lyon Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to acquire and lease property to the City.

#### **Discretely Presented Component Unit**

- a. The Downtown Development Authority (DDA) of the City is reported in a separate column to emphasize that it is legally separate from the City. The DDA was created in an effort to correct and prevent the deterioration of the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is appointed by the city manager and confirmed by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA does not issue a separate financial report.
- b. The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to residents of the City. The EDC's governing body consists of seven individuals who are appointed by the City Council. The EDC had no activity during the fiscal year ended June 30, 2006, and has no financial resources as of June 30, 2006. Accordingly, there is no financial information for the EDC included in these financial statements.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the Downtown Development Authority, a legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, special assessments, state-shared revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Sales taxes collected and held by the State at year end on behalf of the City also are recognized as revenue. All other revenue items, such as fines and permits, are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Capital Improvements Fund** - The Capital Improvements Fund is used to account for special tax levies and other resources used for the development of various capital assets acquired or constructed by the City.

**Building Authority Fund** - The Building Authority Fund is used primarily to account for transactions between the City and South Lyon Community Schools in relation to the joint administration building and debt service for other Building Authority projects.

The City reports the following major proprietary fund:

**Enterprise Fund - Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts had been recorded, as the City believes all receivables will be collected.

**Property Taxes** - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are due on September 15 with the final collection date of February 28 before they are added to the delinquent county tax rolls.

### Note 1 - Summary of Significant Accounting Policies (Continued)

The 2005 taxable valuation of the City totaled approximately \$372.4 million, on which ad valorem taxes levied consisted of 12.8600 mills for the City's operating purposes and .8900 mills for water and sewer debt service. The ad valorem taxes levied raised approximately \$4.8 million for City operations and approximately \$331,000 for water and sewer debt service. These amounts are recognized in the respective General Fund, Special Revenue Funds, Debt Service Funds, and Enterprise Fund financial statements as taxes receivable or as tax revenue.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - Restricted assets consist of cash and cash equivalents held for water and wastewater system improvements and equipment replacement. Included in this amount is a portion of water and sewer tap-in fees required by local ordinance to be restricted for improvements. Restricted tap-in fees totaled approximately \$442,000 for the year ended June 30, 2006.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and a useful life of greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Roads, buildings, equipment, and vehicles are depreciated using the straight-line method over their estimated useful lives:

Wastewater treatment plant and equipment	10 to 40 years
Water treatment plant and equipment	10 to 40 years
Utility system, buildings, and improvements	17 to 40 years
Roads and sidewalks	20 to 25 years
Buildings and improvements	15 to 40 years
Other tools, furniture, and equipment	5 to 15 years

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policy, employees earn sick and vacation time based on time of service with the City. All vacation and sick pay is accrued when incurred in the government-wide financial statements. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. On the governmental fund financial statements, the face amount of debt issued is reported as other financing sources.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and all Special Revenue Funds, except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

The annual budget is prepared by the City Manager and submitted to the City Council at its meeting nearest the third Monday in April of each year. The budget is adopted by the City Council no later than the second regular City Council meeting in May. Subsequent amendments are approved by the City Council. Amendments may be made by the City Council up until the last day of the fiscal year. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

Unexpended appropriations lapse at year end. The amount of encumbrances outstanding at June 30, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

A comparison of the actual results of operations to the budgeted amounts (at the level of control adopted by the City Council) for the General Fund and Major Special Revenue Funds is presented as required supplemental information. Information comparing other Special Revenue Funds activity to the respective budgets can be obtained at City Hall.

During the year, the City did not incur significant expenditures in excess of the amounts budgeted.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated three banks for the deposit of City funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, and such obligations, bonds, and securities as permitted by the statutes of the State of Michigan.

# City of South Lyon, Michigan

## Notes to Financial Statements June 30, 2006

### Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to custodial credit risk, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$16.6 million of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The entire balance of the component units' deposits was covered by federal depository insurance. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 - Receivables

The City's receivables of governmental and business activities are as follows:

	Governmental Activities				Total Governmental Activities	Total Business- type Activities
	General Fund	Capital Improvements Fund	1996 Building Authority Fund	Nonmajor and Other Funds		
Receivables:						
Customers	\$ 186,304	\$ -	\$ -	\$ -	\$ 186,304	\$ 658,991
Intergovernmental	147,034	-	-	81,236	228,270	-
South Lyon Community Schools	-	-	650,160	-	650,160	-
Total receivables	<u>\$ 333,338</u>	<u>\$ -</u>	<u>\$ 650,160</u>	<u>\$ 81,236</u>	<u>\$ 1,064,734</u>	<u>\$ 658,991</u>

The City considers all receivables to be collectible and has not recorded an allowance for doubtful accounts.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of payments not yet earned or received from the South Lyon Community Schools (the "Schools") in relation to the lease agreement between the City and the Schools.

# City of South Lyon, Michigan

## Notes to Financial Statements June 30, 2006

### Note 4 - Receivables (Continued)

In a prior year, the South Lyon Building Authority, in cooperation with the City and the Schools, constructed a joint administrative building. The City entered into a lease agreement with the South Lyon Building Authority relating to the use of the administrative building. In addition, the Schools entered into a lease agreement with the City to sublease a portion of the building. Under the terms of these agreements, the City's and the Schools' rental payments will equal an amount sufficient to pay the debt service requirements and other related costs. The rental payments by the City and the Schools are based on the amount of allocated space utilized by each entity. As of June 30, 2006, the City's and the Schools' estimated share of the debt service was 41.95 percent and 58.05 percent, respectively.

Ownership of the building and land will be transferred at no cost to the Schools upon full payment and retirement of the bonds and the receipt of all rental payments by the City. However, the City has met the requirement to record the building as a capital lease and has accordingly recorded 41.95 percent of the cost and the debt balance in governmental activities.

As of June 30, 2006, the estimated future minimum lease payments to be received by the City from the Schools are as follows:

2007	\$ 148,608
2008	148,608
2009	151,220
2010	150,495
2011	<u>152,381</u>
Total	751,312
Less portion representing interest	<u>(101,152)</u>
Net	<u><u>\$ 650,160</u></u>

# City of South Lyon, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006	Depreciable Life - Years
<b>Governmental Activities</b>					
Capital assets not being depreciated - Land	\$ 3,195,804	\$ 114,759	\$ -	\$ 3,310,563	-
Capital assets being depreciated:					
Roads and sidewalks	15,119,697	4,953,605	-	20,073,302	20-25
Buildings and improvements	5,955,444	553,327	-	6,508,771	15-40
Other tools, furniture, and equipment	2,587,826	334,028	-	2,921,854	5-15
Subtotal	23,662,967	5,840,960	-	29,503,927	
Accumulated depreciation:					
Roads and sidewalks	3,274,806	768,621	-	4,043,427	
Buildings and improvements	1,095,612	218,120	-	1,313,732	
Other tools and equipment	1,848,429	394,113	-	2,242,542	
Subtotal	6,218,847	1,380,854	-	7,599,701	
Net capital assets being depreciated	17,444,120	4,460,106	-	21,904,226	
Net capital assets	<u>\$ 20,639,924</u>	<u>\$ 4,574,865</u>	<u>\$ -</u>	<u>\$ 25,214,789</u>	

# City of South Lyon, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006	Depreciable Life - Years
<b>Business-type Activities</b>					
Capital assets not being depreciated:					
Land	\$ 147,317	\$ -	\$ -	\$ 147,317	-
Construction in progress	15,656,142	2,619,315	-	18,275,457	-
Total capital assets not being depreciated	15,803,459	2,619,315	-	18,422,774	
Capital assets being depreciated:					
Wastewater treatment plant and equipment	13,962,989	42,633	-	14,005,622	10-40
Water treatment plant and equipment	2,570,041	55,766	-	2,625,807	10-40
Utility system, buildings, and improvements	9,915,795	6,787	-	9,922,582	17-40
Other tools, furniture, and equipment	579,741	113,048	-	692,789	5-10
Subtotal	27,028,566	218,234	-	27,246,800	
Accumulated depreciation	11,811,245	737,171	-	12,548,416	
Net capital assets being depreciated	15,217,321	(518,937)	-	14,698,384	
Net capital assets	<u>\$ 31,020,780</u>	<u>\$ 2,100,378</u>	<u>\$ -</u>	<u>\$ 33,121,158</u>	

Depreciation expense was charged to programs of the primary government as follows:

#### Governmental activities:

General government	\$ 124,147
Public safety	267,777
Public works	936,238
Recreation and culture	52,692

Total governmental activities \$ 1,380,854

Business-type activities - Enterprise Fund - Water and Sewer Fund \$ 737,171

**Future Commitments** - The City has entered into various contracts for capital improvements to the City's wastewater treatment plant. The improvements, totaling \$17,250,000, are being funded by a loan from the State of Michigan's State Revolving Fund (see Note 7). As of June 30, 2006, the improvements to the plant funded by the Revolving Fund have totaled \$16,663,161.

# City of South Lyon, Michigan

## Notes to Financial Statements June 30, 2006

### Note 6 - Interfund Balances and Operating Transfers

The composition of interfund receivables and payables balances is as follows:

General Fund:

Water and Wastewater Fund	\$ 106,209
Local Road Fund	<u>9,204</u>
Total General Fund	115,413
Special Revenue Fund - Major Roads Fund - General Fund	13,246
Enterprise Fund - Water and Sewer Fund - Capital Improvement Fund	<u>595,455</u>
Total interfund receivables	<u><u>\$ 724,114</u></u>

Interfund balances represent routine and temporary cash flow assistance.

The composition of operating transfers is as follows:

<u>Operating Transfer Out</u>	<u>Operating Transfer In</u>	<u>Amount</u>
Special Revenue Funds:		
Major Road Fund	1996 Transportation Bonds Fund	\$ 50,976
Capital Improvements Fund	Local Road Fund	250,087
Community Development Block Grant Fund	Capital Improvements Fund	<u>85,000</u>
Total transfers out of Special Revenue Funds		386,063
Component units:		
Downtown Development Authority	General Fund	6,500
Downtown Development Authority	2005 Building Authority Bonds Fund	<u>37,756</u>
Total transfers out of component units		44,256
Enterprise Funds - Water and Sewer Fund	2000 G.O. Water Bonds Fund	<u>52,720</u>
Total operating transfers		<u><u>\$ 483,039</u></u>

# City of South Lyon, Michigan

## Notes to Financial Statements June 30, 2006

### Note 6 - Interfund Balances and Operating Transfers (Continued)

Transfers from the Major Road Fund, Downtown Development Authority and Enterprise - Water and Sewer Fund to the Debt Service Funds provide for debt payments. Transfers from the Capital Improvements Fund and the Community Development Block Grant Fund to the governmental funds provide for capital improvements. Finally, transfers from the Downtown Development Authority to the General Fund provide for funds to pay for General Fund wages used for the Downtown Development Authority.

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	July 1, 2005	Additions	Reductions	June 30, 2006	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds:					
1996 Transportation Bonds	\$ 50,000	\$ -	\$ (50,000)	\$ -	\$ -
1996 Building Authority Bonds	1,310,000	-	(190,000)	1,120,000	200,000
1999 Building Authority Bonds	1,070,000	-	(55,000)	1,015,000	60,000
2005 Building Authority Bonds	380,000	-	(25,000)	355,000	25,000
1991 Special assessment bonds -					
Nine Mile construction	5,000	-	(5,000)	-	-
Compensated absences	300,568	65,267	-	365,835	365,835
Installment purchase agreements:					
2000 fire truck installment contract	282,902	-	(50,710)	232,192	53,489
2006 dumptruck installment contract	-	200,000	(40,000)	160,000	40,000
Total governmental activities	<u>\$ 3,398,470</u>	<u>\$ 265,267</u>	<u>\$ (415,710)</u>	<u>\$ 3,248,027</u>	<u>\$ 744,324</u>
<b>Business-type Activities</b>					
General obligation debt:					
2000 Unlimited Tax Water Bonds	\$ 1,120,000	\$ -	\$ (80,000)	\$ 1,040,000	\$ 80,000
2003 State of Michigan Revolving Fund Loan	14,374,886	2,288,275	-	16,663,161	675,000
Total business-type activities	<u>\$ 15,494,886</u>	<u>\$ 2,288,275</u>	<u>\$ (80,000)</u>	<u>\$ 17,703,161</u>	<u>\$ 755,000</u>

Note: The change in compensated absences is the net change to the liability during the year ended June 30, 2006.

# City of South Lyon, Michigan

## Notes to Financial Statements June 30, 2006

### Note 7 - Long-term Debt (Continued)

Other information concerning long-term debt obligations is as follows:

	Original Principal	Outstanding Debt June 30, 2006	Interest Rate	Final Payment Date	Maturity Payment Ranges
<b>Governmental Activities</b>					
General obligation bonds:					
1996 Building Authority Bonds	\$ 2,650,000	\$ 1,120,000	4.90%-5.00%	05/01/2011	\$190,000-\$250,000
1999 Building Authority Bonds	1,370,000	1,015,000	4.70%-5.20%	05/01/2019	\$55,000-\$100,000
2005 Building Authority Bonds	380,000	355,000	3.00%-4.10%	05/01/2019	\$20,000-\$35,000
Installment purchase agreements:					
2000 fire truck installment contract	500,000	232,192	3.33%	06/01/2010	\$53,489-\$62,771
2006 dumptruck installment contract	200,000	160,000	3.75%	04/01/2010	\$40,000
Total governmental activities - Excluding compensated absences	<u>\$ 5,100,000</u>	<u>2,882,192</u>			
Compensated absences		<u>365,835</u>			
Total governmental activities		<u>\$ 3,248,027</u>			
<b>Business-type Activities</b>					
General obligation debt:					
2000 Unlimited Tax Water Bonds	\$ 1,400,000	\$ 1,040,000	4.45% - 5.20%	09/01/2015	\$80,000-\$130,000
2003 State of Michigan Revolving Fund Loan	<u>16,663,161</u>	<u>16,663,161</u>	2.50%	10/01/2025	\$562,496-\$899,993
Total business-type activities	<u>\$ 18,063,161</u>	<u>\$ 17,703,161</u>			

The City has entered into an agreement with the State of Michigan to borrow up to \$17,250,000 from the State Revolving Fund in order to pay for the capital improvements to the City's waste-water treatment plant. Interest payments on the loan began in October 2003. The loan principal will be repaid over 20 years in annual installments beginning in October 2006. As of June 30, 2006, the outstanding loan balance is \$16,663,161.

# City of South Lyon, Michigan

## Notes to Financial Statements June 30, 2006

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the City's long-term obligations, except compensated absences, are as follows:

Fiscal Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 373,489	\$ 139,287	\$ 512,776	\$ 755,000	\$ 257,342	\$ 1,012,342
2008	391,418	121,836	513,254	728,563	428,768	1,157,331
2009	414,512	102,548	517,060	775,846	407,639	1,183,485
2010	432,773	82,542	515,315	795,336	387,828	1,183,164
2011	345,000	61,548	406,548	819,655	363,229	1,182,884
2012	100,000	44,673	144,673	843,975	339,755	1,183,730
2013	100,000	40,010	140,010	863,465	315,543	1,179,008
2014	110,000	35,285	145,285	892,784	290,473	1,183,257
2015	115,000	30,095	145,095	917,104	264,484	1,181,588
2016	120,000	24,535	144,535	946,253	237,509	1,183,762
2017	120,000	18,655	138,655	835,573	213,240	1,048,813
2018	125,000	12,775	137,775	854,893	191,868	1,046,761
2019	135,000	6,635	141,635	879,042	169,892	1,048,934
2020	-	-	-	898,362	147,433	1,045,795
2021	-	-	-	922,511	124,370	1,046,881
2022	-	-	-	946,661	100,703	1,047,364
2023	-	-	-	970,810	76,433	1,047,243
2024	-	-	-	994,960	51,559	1,046,519
2025	-	-	-	1,019,109	26,081	1,045,190
2026	-	-	-	1,043,259	-	1,043,259
Total	<u>\$ 2,882,192</u>	<u>\$ 720,424</u>	<u>\$ 3,602,616</u>	<u>\$ 17,703,161</u>	<u>\$ 4,394,149</u>	<u>\$ 22,097,310</u>

Total interest incurred related to governmental activities for the year approximated \$199,000. Total interest incurred related to business-type activities for the year approximated \$376,000.

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for workers' compensation, medical, health, life, and disability claims, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general law enforcement, emergency medical, public errors and omissions, and auto liabilities. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### **Note 8 - Risk Management (Continued)**

The Michigan Municipal Risk Management Authority risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 9 - Defined Benefit Pension Plans**

#### **Plan Description**

The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48197.

#### **Funding Policy**

The obligation to contribute to and maintain the system for these employees was established by resolution of the City Council and negotiation with the competitive bargaining unit representing union employees. The plan does not require a contribution from employees. The employer contribution ranges from 9.25 percent to 13.66 percent of gross compensation based on the employee's classification. Pension benefits are based on 2.25 percent of the five-year final average compensation, with a maximum of 80 percent of final average compensation for AFSCME employees and 2 percent of the five-year final average compensation for all other employees. Deferred retirement benefits vest after 10 years of service, but are not paid until the date retirement would have occurred had the member remained an employee.

# City of South Lyon, Michigan

## Notes to Financial Statements June 30, 2006

### Note 9 - Defined Benefit Pension Plans (Continued)

#### Annual Pension Costs

For the year ended June 30, 2006, the City's annual pension cost amounted to \$289,540. The City's required contribution was equal to the annual pension cost as determined by the actuarial valuation. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost actuarial funding method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.90 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded liability is being amortized as a level percentage of payroll on a closed basis.

#### Three-year Trend Information

	Fiscal Year Ended June 30		
	2006	2005	2004
Annual pension costs (APC)	\$ 289,540	\$ 222,228	\$ 177,336
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2005	2004	2003
Actuarial value of assets	\$ 5,109,827	\$ 4,712,758	\$ 4,368,053
Actuarial accrued liability (AAL) (entry)	\$ 6,936,238	\$ 6,300,434	\$ 5,672,607
Unfunded AAL (UAAL)	\$ 1,826,411	\$ 1,587,676	\$ 1,304,554
Funded ratio	73.7%	74.8%	77.0%
Covered payroll	\$ 2,580,549	\$ 2,520,438	\$ 2,345,282
UAAL as a percentage of covered payroll	70.8%	63.0%	55.6%

# City of South Lyon, Michigan

## Notes to Financial Statements June 30, 2006

### Note 10 - Joint Ventures

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC) and the South Lyon Area Recreation Council (SLARC). RRRASOC is incorporated by the Cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of Lyon. SLARC is incorporated by the City of South Lyon and the Charter Townships of Lyon and Green Oak. The City appoints one member to each of the joint ventures' governing boards, which then approve the annual budgets. The joint ventures receive their operating revenue from member contributions and miscellaneous income. During the current year, the City contributed the following amounts:

Entity	Contribution
RRRASOC	\$ 16,958
SLARC	25,636

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for RRRASOC can be obtained from RRRASOC's office at 43315 Sixth Gate, Novi, Michigan 48375, and for SLARC at SLARC's office at 318 W. Lake Street, South Lyon, MI 48178.

### Note 11 - Restricted Net Assets

Net assets have been restricted for the following purposes:

Restricted for	Governmental Activities	Business-type Activities
Road improvements	\$ 876,950	\$ -
Law enforcement	48,697	-
Cemetery	598,049	-
Debt service	242,985	-
Water and sewer replacement	-	6,015,895
State Revolving Fund loan	-	1,832,896
Total	<u>\$ 1,766,681</u>	<u>\$ 7,848,791</u>

# City of South Lyon, Michigan

## Notes to Financial Statements June 30, 2006

### Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Building permit revenue	\$ 168,112
Related expenses:	
Direct costs	(247,335)
Estimated indirect costs	<u>(10,702)</u>
Total construction code expenses	<u>(258,037)</u>
Shortfall	(89,925)
Cumulative shortfall - July 1, 2005	<u>(428,862)</u>
Cumulative shortfall - June 30, 2006	<u><u>\$ (518,787)</u></u>

# City of South Lyon, Michigan

## Notes to Financial Statements June 30, 2006

### Note 13 - Capital Improvements Fund Expenditures

The expenditures of the Capital Improvements Fund for the year ended June 30, 2006 are as follows:

Professional services:

Cemetery addition	\$	4,074	
Hagadorn sidewalk		39,214	
McHattie comfort station		4,386	
Volunteer park		9,463	
Wells Street parking lot		65,715	
Orchard Ridge		909	
Pontiac Trail		10,594	
Streetscape		<u>7,582</u>	
Total professional services	\$		<u>141,937</u>

Construction:

Chester and Ridge sidewalk		94,079	
McHattie comfort station		84,962	
Griswold Road		7,547	
Wells Street parking lot		<u>339,882</u>	
Total construction			<u>526,470</u>
Total community maintenance and development expenditures	\$		<u><u>668,407</u></u>

## **Required Supplemental Information**

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# City of South Lyon, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 3,159,016	\$ 3,159,016	\$ 3,199,793	\$ 40,777
Federal sources	-	-	20,000	20,000
State-shared revenue	862,387	862,387	850,197	(12,190)
Licenses and permits	100,000	100,000	134,069	34,069
Charges for services	292,500	292,500	302,408	9,908
Fines and forfeitures	34,000	34,000	43,399	9,399
Interest and other	213,500	213,500	282,715	69,215
Total revenue	4,661,403	4,661,403	4,832,581	151,178
<b>Expenditures</b>				
General government	1,219,100	1,219,100	1,171,468	(47,632)
Police	2,031,054	2,031,054	2,004,786	(26,268)
Fire	547,730	547,730	518,620	(29,110)
Ambulance	7,850	7,850	2,884	(4,966)
Cemetery	76,440	76,440	69,009	(7,431)
DPW	745,200	755,200	756,801	1,601
Parks and recreation	80,769	80,769	72,049	(8,720)
Senior transportation	50,000	50,000	50,000	-
Historical depot	33,200	33,200	28,925	(4,275)
Total expenditures	4,791,343	4,801,343	4,674,542	(126,801)
<b>Excess of Revenue Over (Under) Expenditures</b>	(129,940)	(139,940)	158,039	277,979
<b>Fund Balance - July 1, 2005</b>	2,966,778	2,966,778	2,966,778	-
<b>Fund Balance - June 30, 2006</b>	<u>\$ 2,836,838</u>	<u>\$ 2,826,838</u>	<u>\$ 3,124,817</u>	<u>\$ 277,979</u>

# City of South Lyon, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Capital Improvements Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 1,344,521	\$ 1,344,521	\$ 1,335,127	\$ (9,394)
Community development block grant	43,840	103,200	-	(103,200)
Local sources	-	-	11,817	11,817
Interest and other	15,000	15,000	76,756	61,756
Transfers from other funds	-	-	85,000	85,000
Total revenue	1,403,361	1,462,721	1,508,700	45,979
<b>Expenditures</b>				
Professional services	104,000	142,625	141,937	(688)
Construction expense	655,750	734,400	526,470	(207,930)
Transfers to other funds	273,500	291,100	250,087	(41,013)
Total expenditures	1,033,250	1,168,125	918,494	(249,631)
<b>Excess of Revenue Over Expenditures</b>	370,111	294,596	590,206	295,610
<b>Fund Balance - July 1, 2005</b>	1,866,292	1,866,292	1,866,292	-
<b>Fund Balance - June 30, 2006</b>	<u>\$ 2,236,403</u>	<u>\$ 2,160,888</u>	<u>\$ 2,456,498</u>	<u>\$ 295,610</u>

## **Other Supplemental Information**

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# City of South Lyon, Michigan

	General	Public Safety		
	Government	Police	Fire	Ambulance
<b>Expenditures</b>				
Salaries and wages	\$ 475,177	\$ 1,261,453	\$ 33,639	\$ -
Salaries and wages - Mechanic	-	-	-	-
Reimbursement of mechanic wages	-	-	-	-
Fringe benefits:				
Payroll taxes and insurance	192,150	475,618	29,082	-
Uniforms	-	16,425	13,330	-
Education and training	2,234	1,898	11,643	-
Total fringe benefits	194,384	493,941	54,055	-
Operating expense	13,018	8,924	12,876	-
Office supplies	6,621	2,644	11,713	-
Printing	4,443	-	-	-
Publishing	4,483	-	-	-
Professional services	29,069	8,305	-	-
Contractual services	99,251	-	-	-
Audit	38,744	-	-	-
Planning consultant	7,150	-	-	-
Elections	6,858	-	-	-
Legal fees	55,450	23,602	-	-
Dues and memberships	12,583	345	2,803	-
Telephone	5,683	12,078	8,083	-
Conference and travel	7,073	248	-	-
Insurance and bonds	38,570	21,730	15,738	60
Utilities	18,417	15,418	9,727	2,298
Maintenance:				
Building	11,624	4,403	7,614	-
General	-	9,705	4,386	526
Vehicle	2,867	15,101	21,291	-
Radio	-	2,144	6,752	-
Gas and oil	-	21,294	4,498	-
Sundry	7,790	140	-	-
Community promotions	99,545	-	-	-
Capital improvements	-	57,867	-	-
Land beautification	10,619	-	-	-
Equipment purchases	626	1,416	15,800	-
Computer purchases	4,465	-	-	-
Capital expenditures	-	-	33,055	-
Land improvements	-	-	-	-
Recycling charges	16,958	-	-	-
Debt service principal	-	-	50,710	-
Debt service interest	-	-	9,425	-
Ammunition	-	2,327	-	-
South Lyon Firefighters Association	-	-	181,201	-
Radio dispatching	-	41,701	10,204	-
Equipment rental	-	-	25,050	-
Traffic and street lights	-	-	-	-
Total expenditures	1,171,468	2,004,786	518,620	2,884
<b>Transfer to Other Funds</b>	-	-	-	-
Total expenditures and transfers to other funds	<u>\$ 1,171,468</u>	<u>\$ 2,004,786</u>	<u>\$ 518,620</u>	<u>\$ 2,884</u>

**Other Supplemental Information**  
**Schedule of Expenditures**  
**General Fund**  
**June 30, 2006**

Community Maintenance and Development		Culture and Recreation			Year Ended June 30	
Cemetery	Public Works	Parks and Recreation	Senior Transportation	Historical Depot	2006	2005
\$ 22,229	\$ 174,366	\$ 36,412	\$ -	\$ -	\$ 2,003,276	\$ 1,957,665
-	20,864	-	-	-	20,864	29,967
-	(20,864)	-	-	-	(20,864)	(29,967)
9,546	133,562	10,568	-	-	850,526	790,026
-	5,012	-	-	-	34,767	32,066
-	1,680	-	-	-	17,455	14,692
9,546	140,254	10,568	-	-	902,748	836,784
6,793	53,059	17,059	-	-	111,729	115,705
-	716	-	-	-	21,694	19,054
-	-	-	-	-	4,443	4,573
-	-	-	-	-	4,483	5,439
28,422	4,585	-	-	-	70,381	66,668
-	-	-	-	-	99,251	100,945
-	-	-	-	-	38,744	36,809
-	-	-	-	-	7,150	6,050
-	-	-	-	-	6,858	8,652
-	-	-	-	-	79,052	60,491
-	-	-	-	-	15,731	17,058
-	2,680	-	-	-	28,524	32,504
-	-	-	-	-	7,321	9,144
402	20,401	590	-	742	98,233	95,921
677	35,053	2,295	50,000	9,590	143,475	83,989
-	26,944	-	-	4,294	54,879	76,185
676	-	1,584	-	3,266	20,143	19,740
-	82,058	-	-	-	121,317	157,000
-	-	-	-	-	8,896	7,268
-	32,251	-	-	-	58,043	59,521
-	-	537	-	308	8,775	49,630
-	-	-	-	4,931	104,476	124,321
-	-	-	-	1,795	59,662	90,803
-	-	-	-	-	10,619	4,672
264	5,250	3,004	-	-	26,360	40,871
-	-	-	-	-	4,465	14,707
-	-	-	-	-	33,055	5,709
-	74,963	-	-	3,999	78,962	52,472
-	-	-	-	-	16,958	15,292
-	-	-	-	-	50,710	80,007
-	-	-	-	-	9,425	11,341
-	-	-	-	-	2,327	1,736
-	-	-	-	-	181,201	171,388
-	-	-	-	-	51,905	52,929
-	20,000	-	-	-	45,050	47,133
-	84,221	-	-	-	84,221	89,067
69,009	756,801	72,049	50,000	28,925	4,674,542	4,629,241
-	-	-	-	-	-	51,732
<b>\$ 69,009</b>	<b>\$ 756,801</b>	<b>\$ 72,049</b>	<b>\$ 50,000</b>	<b>\$ 28,925</b>	<b>\$ 4,674,542</b>	<b>\$ 4,680,973</b>

# City of South Lyon, Michigan

## Other Supplemental Information Nonmajor Governmental Funds Special Revenue Funds and Debt Service Funds (Combined) Combining Balance Sheet Year Ended June 30, 2006

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 1,836,653	\$ 57,278	\$ 1,893,931
Due from other governmental units	81,236	-	81,236
Due from other funds	13,246	-	13,246
Other current assets	<u>10,746</u>	<u>-</u>	<u>10,746</u>
Total assets	<u><b>\$ 1,941,881</b></u>	<u><b>\$ 57,278</b></u>	<u><b>\$ 1,999,159</b></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 3,912	\$ -	\$ 3,912
Accrued and other liabilities	3,350	-	3,350
Due to other funds	<u>9,204</u>	<u>-</u>	<u>9,204</u>
Total liabilities	16,466	-	16,466
<b>Fund Balances</b>			
Reserved for future cemetery expenditures	598,049	-	598,049
Unreserved:			
Designated	166,666	48,340	215,006
Undesignated	<u>1,160,700</u>	<u>8,938</u>	<u>1,169,638</u>
Total fund balances	<u>1,925,415</u>	<u>57,278</u>	<u>1,982,693</u>
Total liabilities and fund balances	<u><b>\$ 1,941,881</b></u>	<u><b>\$ 57,278</b></u>	<u><b>\$ 1,999,159</b></u>

# City of South Lyon, Michigan

## Other Supplemental Information Nonmajor Governmental Funds Special Revenue Funds and Debt Service Funds (Combined) Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
<b>Revenues</b>			
Property taxes	\$ 44,383	\$ -	\$ 44,383
Federal sources	85,000	-	85,000
State sources	491,982	-	491,982
Charges for services	54,000	-	54,000
Interest and other	77,514	1,032	78,546
Total revenues	752,879	1,032	753,911
<b>Expenditures</b>			
Community maintenance and development:			
Professional services:			
Major Street Paving Program:			
Stryker Street improvements	4,254	-	4,254
Whipple Street improvements	16,672	-	16,672
Local Street Paving Program:			
Hagadorn Street improvements	11,256	-	11,256
Stryker Street improvements	33,710	-	33,710
Whipple Street improvements	15,949	-	15,949
Other	6,632	-	6,632
Construction:			
Major Street Paving Program - Stryker Street	12,142	-	12,142
Local Street Paving Program:			
Hagadorn Street improvements	114,358	-	114,358
Stryker Street improvements	88,230	-	88,230
Street routine maintenance	267,906	-	267,906
Traffic services	16,556	-	16,556
Snow plowing	84,895	-	84,895
Drainage and backsloping	18,291	-	18,291
Total community maintenance and development	690,851	-	690,851
Capital outlay	200,000	-	200,000
Debt principal payments	40,000	55,000	95,000
Interest and fiscal charges	2,181	56,323	58,504
Total expenditures	933,032	111,323	1,044,355
<b>Excess of Expenditures Over Revenues</b>	(180,153)	(110,291)	(290,444)
<b>Other Financing Sources (Uses)</b>			
Operating transfers in	250,087	103,696	353,783
Operating transfers out	(135,976)	-	(135,976)
Proceeds from long-term debt	200,000	-	200,000
Total other financing sources (uses)	314,111	103,696	417,807
<b>Net Change in Fund Balances</b>	133,958	(6,595)	127,363
<b>Fund Balances - July 1, 2005</b>	1,791,457	63,873	1,855,330
<b>Fund Balances - June 30, 2006</b>	<u>\$ 1,925,415</u>	<u>\$ 57,278</u>	<u>\$ 1,982,693</u>

# City of South Lyon, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Special Revenue Funds June 30, 2006

	Major Road	Local Road	Community Development Block Grant	Equipment Replacement	Drug Forfeiture	Land Acquisition	Cemetery Perpetual Care	Total Nonmajor Special Revenue Funds
<b>Assets</b>								
Cash and cash equivalents	\$ 665,110	\$ 123,078	\$ -	\$ 186,392	\$ 48,697	\$ 215,327	\$ 598,049	\$ 1,836,653
Due from other governmental units	56,937	24,299	-	-	-	-	-	81,236
Due from other funds	13,246	-	-	-	-	-	-	13,246
Other current assets	5,674	5,072	-	-	-	-	-	10,746
Total assets	<u>\$ 740,967</u>	<u>\$ 152,449</u>	<u>\$ -</u>	<u>\$ 186,392</u>	<u>\$ 48,697</u>	<u>\$ 215,327</u>	<u>\$ 598,049</u>	<u>\$ 1,941,881</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Accounts payable	\$ -	\$ 3,912	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,912
Accrued and other liabilities	2,155	1,195	-	-	-	-	-	3,350
Due to other funds	-	9,204	-	-	-	-	-	9,204
Total liabilities	2,155	14,311	-	-	-	-	-	16,466
<b>Fund Balances</b>								
Reserved for future cemetery expenditures	-	-	-	-	-	-	598,049	598,049
Unreserved:								
Designated for subsequent year's expenditures	108,466	-	-	58,200	-	-	-	166,666
Undesignated	630,346	138,138	-	128,192	48,697	215,327	-	1,160,700
Total fund balances	738,812	138,138	-	186,392	48,697	215,327	598,049	1,925,415
Total liabilities and fund balances	<u>\$ 740,967</u>	<u>\$ 152,449</u>	<u>\$ -</u>	<u>\$ 186,392</u>	<u>\$ 48,697</u>	<u>\$ 215,327</u>	<u>\$ 598,049</u>	<u>\$ 1,941,881</u>

# City of South Lyon, Michigan

	Major Road	Local Road	Community Development Block Grant	Equipment Replacement
<b>Revenues</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	85,000	-
State sources	344,824	147,158	-	-
Charges for services	-	-	-	54,000
Metro Authority	22,426	-	-	-
Interest and other	14,453	3,227	-	6,346
Total revenues	381,703	150,385	85,000	60,346
<b>Expenditures</b>				
Community maintenance and development:				
Professional services:				
Major Street Paving Program:				
Stryker Street improvements	4,254	-	-	-
Whipple Street improvements	16,672	-	-	-
Local Street Paving Program:				
Hagadorn Street improvements	-	11,256	-	-
Stryker Street improvements	-	33,710	-	-
Whipple Street improvements	-	15,949	-	-
Other	2,107	4,525	-	-
Construction:				
Major Street Paving Program - Stryker Street improvements	12,142	-	-	-
Local Street Paving Program:				
Hagadorn Street improvements	-	114,358	-	-
Stryker Street improvements	-	88,230	-	-
Interest	-	-	-	2,181
Street routine maintenance	143,810	124,096	-	-
Traffic services	11,597	4,959	-	-
Snow plowing	48,959	35,936	-	-
Drainage and backsloping	8,052	10,239	-	-
Total community maintenance and development	247,593	443,258	-	2,181
Capital outlay and debt service	-	-	-	240,000
Total expenditures	247,593	443,258	-	242,181
<b>Excess of Revenues Over (Under) Expenditures</b>	134,110	(292,873)	85,000	(181,835)
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	-	250,087	-	-
Operating transfers out	(50,976)	-	(85,000)	-
Proceeds from issuance of long-term debt	-	-	-	200,000
Total other financing sources (uses)	(50,976)	250,087	(85,000)	200,000
<b>Net Change in Fund Balances</b>	83,134	(42,786)	-	18,165
<b>Fund Balances - July 1, 2005</b>	655,678	180,924	-	168,227
<b>Fund Balances - June 30, 2006</b>	<u>\$ 738,812</u>	<u>\$ 138,138</u>	<u>\$ -</u>	<u>\$ 186,392</u>

**Other Supplemental Information  
Nonmajor Special Revenue Funds  
Combining Statement of Revenue, Expenditures,  
and Changes in Fund Balances  
Year Ended June 30, 2006**

Drug Forfeiture	Land Acquisition	Cemetery Perpetual Care	Total Nonmajor Special Revenue Funds
\$ -	\$ 44,383	\$ -	\$ 44,383
-	-	-	85,000
-	-	-	491,982
-	-	-	54,000
-	-	-	22,426
1,199	4,863	25,000	55,088
1,199	49,246	25,000	752,879
-	-	-	4,254
-	-	-	16,672
-	-	-	11,256
-	-	-	33,710
-	-	-	15,949
-	-	-	6,632
-	-	-	12,142
-	-	-	114,358
-	-	-	88,230
-	-	-	2,181
-	-	-	267,906
-	-	-	16,556
-	-	-	84,895
-	-	-	18,291
-	-	-	693,032
-	-	-	240,000
-	-	-	933,032
1,199	49,246	25,000	(180,153)
-	-	-	250,087
-	-	-	(135,976)
-	-	-	200,000
-	-	-	314,111
1,199	49,246	25,000	133,958
47,498	166,081	573,049	1,791,457
<b>\$ 48,697</b>	<b>\$ 215,327</b>	<b>\$ 598,049</b>	<b>\$ 1,925,415</b>

# City of South Lyon, Michigan

## Other Supplemental Information Schedule of Expenditures by Activity Major and Local Road Funds Year Ended June 30, 2006

### Major Road Fund

	Professional Services	Street Construction	Street Routine Maintenance	Traffic Services	Snow Plowing	Drainage and Backsloping	Total
Wages and salaries	\$ -	\$ -	\$ 78,645	\$ 2,423	\$ 22,663	\$ 4,648	\$ 108,379
Fringe benefits	-	-	40,680	1,261	11,687	2,334	55,962
Operating expense	-	-	207	2,319	14,609	1,070	18,205
Professional services:							
Stryker Street improvements	4,254	-	-	-	-	-	4,254
Whipple Street improvements	16,672	-	-	-	-	-	16,672
Other	2,107	-	-	-	-	-	2,107
Traffic signals	-	-	-	5,594	-	-	5,594
Repairs and maintenance	-	-	5,221	-	-	-	5,221
Equipment rental	-	-	19,000	-	-	-	19,000
Insurance	-	-	57	-	-	-	57
Construction - Stryker Street	-	12,142	-	-	-	-	12,142
Total expenditures	<u>\$ 23,033</u>	<u>\$ 12,142</u>	<u>\$ 143,810</u>	<u>\$ 11,597</u>	<u>\$ 48,959</u>	<u>\$ 8,052</u>	<u>\$ 247,593</u>

### Local Road Fund

Wages and salaries	\$ -	\$ -	\$ 68,915	\$ 2,264	\$ 18,529	\$ 5,587	\$ 95,295
Fringe benefits	-	-	36,073	1,168	9,540	2,770	49,551
Operating expense	-	-	261	1,527	7,867	1,811	11,466
Professional services:							
Hagadorn Street improvements	11,256	-	-	-	-	-	11,256
Stryker Street improvements	33,710	-	-	-	-	-	33,710
Whipple Street improvements	15,949	-	-	-	-	-	15,949
Other	4,525	-	-	-	-	-	4,525
Repairs and maintenance	-	-	3,790	-	-	71	3,861
Equipment rental	-	-	15,000	-	-	-	15,000
Insurance	-	-	57	-	-	-	57
Construction:							
Hagadorn Street improvements	-	114,358	-	-	-	-	114,358
Stryker Street improvements	-	88,230	-	-	-	-	88,230
Total expenditures	<u>\$ 65,440</u>	<u>\$ 202,588</u>	<u>\$ 124,096</u>	<u>\$ 4,959</u>	<u>\$ 35,936</u>	<u>\$ 10,239</u>	<u>\$ 443,258</u>

# City of South Lyon, Michigan

## Other Supplemental Information Nonmajor Debt Service Funds Combining Balance Sheet June 30, 2006

	1991 Special Assessment	1996 Transportation Bonds	2000 General Obligation Water Bonds	Total Nonmajor Debt Service Funds
<b>Assets - Cash and cash equivalents</b>	<b><u>\$ 16,017</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 41,261</u></b>	<b><u>\$ 57,278</u></b>
<b>Fund Balances - Unreserved</b>				
Designated for subsequent year's expenditures	\$ 15,840	\$ -	\$ 32,500	\$ 48,340
Undesignated	<u>177</u>	<u>-</u>	<u>8,761</u>	<u>8,938</u>
 Total fund balances	<b><u>\$ 16,017</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 41,261</u></b>	<b><u>\$ 57,278</u></b>

# City of South Lyon, Michigan

## Other Supplemental Information Nonmajor Debt Service Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	1991 Special Assessment	1996 Transportation Bonds	2000 General Obligation Water Bonds	Total Nonmajor Debt Service Funds
<b>Revenues - Interest and other</b>	\$ 336	\$ 5	\$ 691	\$ 1,032
<b>Expenditures</b>				
Debt principal payments	5,000	50,000	-	55,000
Interest and fiscal charges	<u>678</u>	<u>2,925</u>	<u>52,720</u>	<u>56,323</u>
Total expenditures	<u>5,678</u>	<u>52,925</u>	<u>52,720</u>	<u>111,323</u>
<b>Excess of Expenditures Over Revenues</b>	(5,342)	(52,920)	(52,029)	(110,291)
<b>Other Financing Sources - Transfers in</b>	<u>-</u>	<u>50,976</u>	<u>52,720</u>	<u>103,696</u>
<b>Net Change in Fund Balances</b>	(5,342)	(1,944)	691	(6,595)
<b>Fund Balances - July 1, 2005</b>	<u>21,359</u>	<u>1,944</u>	<u>40,570</u>	<u>63,873</u>
<b>Fund Balances - June 30, 2006</b>	<u><b>\$ 16,017</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 41,261</b></u>	<u><b>\$ 57,278</b></u>

# City of South Lyon, Michigan

	Major Debt Service Fund			
	1996 Building Authority	1999 Building Authority	2005 Building Authority	Total Building Authority Fund
<b>Assets</b>				
Cash and cash equivalents	\$ 146,636	\$ 39,071	\$ -	\$ 185,707
Due from other funds	-	-	-	-
Due from other governmental units	650,160	-	-	650,160
Total assets	<u><b>\$ 796,796</b></u>	<u><b>\$ 39,071</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 835,867</b></u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b> - Deferred revenue	\$ 650,160	\$ -	\$ -	\$ 650,160
<b>Fund Balances</b> - Unreserved				
Designated for subsequent year's expenditures	-	-	-	-
Undesignated	146,636	39,071	-	185,707
Total fund balances	146,636	39,071	-	185,707
Total liabilities and fund balances	<u><b>\$ 796,796</b></u>	<u><b>\$ 39,071</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 835,867</b></u>

**Other Supplemental Information**  
**Summary of Debt Service Activity**  
**Assets, Liabilities, and Fund Balances**  
**Year Ended June 30, 2006**

Nonmajor Debt Service Funds			Enterprise Fund Debt	
1991 Special Assessment	1996 Transportation Bonds	2000 General Obligation Water Bonds	2003 State Revolving Fund Loan	Total
\$ 16,017	\$ -	\$ 41,261	\$ 1,275,290	\$ 1,518,275
-	-	-	595,456	595,456
-	-	-	-	650,160
<b>\$ 16,017</b>	<b>\$ -</b>	<b>\$ 41,261</b>	<b>\$ 1,870,746</b>	<b>\$ 2,763,891</b>
\$ -	\$ -	\$ -	\$ -	\$ 650,160
15,840	-	32,500	-	48,340
177	-	8,761	1,870,746	2,065,391
16,017	-	41,261	1,870,746	2,113,731
<b>\$ 16,017</b>	<b>\$ -</b>	<b>\$ 41,261</b>	<b>\$ 1,870,746</b>	<b>\$ 2,763,891</b>

# City of South Lyon, Michigan

	Major Debt Service Fund			
	1996 Building Authority	1999 Building Authority	2005 Building Authority	Total Building Authority Fund
<b>Revenues</b>				
Property taxes	\$ 105,782	\$ 109,849	\$ -	\$ 215,631
Local sources	148,396	-	-	148,396
Interest	4,619	808	-	5,427
Total revenue	258,797	110,657	-	369,454
<b>Expenditures</b>				
Debt principal payments	190,000	55,000	25,000	270,000
Interest and fiscal charges	65,635	54,188	12,756	132,579
Total expenditures	255,635	109,188	37,756	402,579
<b>Excess of Revenue Over (Under) Expenditures</b>	3,162	1,469	(37,756)	(33,125)
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	-	-	-	-
Operating transfers from component unit	-	-	37,756	37,756
Total other financing sources (uses)	-	-	37,756	37,756
<b>Net Change in Fund Balances</b>	3,162	1,469	-	4,631
<b>Fund Balances - July 1, 2005</b>	143,474	37,602	-	181,076
<b>Fund Balances - June 30, 2006</b>	<u>\$ 146,636</u>	<u>\$ 39,071</u>	<u>\$ -</u>	<u>\$ 185,707</u>

**Other Supplemental Information  
Summary of Debt Service Activity  
Revenue, Expenditures, and  
Changes in Fund Balances  
Year Ended June 30, 2006**

Nonmajor Debt Service Funds			Enterprise Fund Debt	
1991 Special Assessment	1996 Transportation Bonds	2000 General Obligation Water Bonds	2003 State Revolving Fund Loan	Total
\$ -	\$ -	\$ -	\$ 330,788	\$ 546,419
-	-	-	-	148,396
<u>336</u>	<u>5</u>	<u>691</u>	<u>-</u>	<u>6,459</u>
336	5	691	330,788	701,274
5,000	50,000	-	-	325,000
<u>678</u>	<u>2,925</u>	<u>52,720</u>	<u>375,583</u>	<u>564,485</u>
5,678	52,925	52,720	375,583	889,485
(5,342)	(52,920)	(52,029)	(44,795)	(188,211)
-	50,976	52,720	-	103,696
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,756</u>
-	50,976	52,720	-	141,452
(5,342)	(1,944)	691	(44,795)	(46,759)
<u>21,359</u>	<u>1,944</u>	<u>40,570</u>	<u>1,915,541</u>	<u>2,160,490</u>
<u><u>\$ 16,017</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 41,261</u></u>	<u><u>\$ 1,870,746</u></u>	<u><u>\$ 2,113,731</u></u>

# City of South Lyon, Michigan

	Activity		
	Water Distribution System	Water Repair	Wastewater System
Personnel services:			
Salaries and wages	\$ 144,148	\$ 68,525	\$ 331,200
Fringe benefits	112,833	16,438	165,049
Total personnel services	256,981	84,963	496,249
Equipment repairs and maintenance:			
Equipment maintenance	14,256	26,284	3,666
Building maintenance	17,890	-	77,713
Total equipment repairs and maintenance	32,146	26,284	81,379
Public utilities:			
Gas	2,261	-	54,466
Electric	103,881	-	203,048
Telephone	5,071	-	2,446
Total public utilities	111,213	-	259,960
Refuse collection	-	-	-
Depreciation	299,018	-	434,188
Amortization	-	-	1,038
Total depreciation and amortization	299,018	-	435,226
Other services and charges:			
Professional services	5,594	-	58,767
Municipal service charge	21,000	-	21,000
Total other services and charges	26,594	-	79,767
Supplies:			
Office	744	-	743
Operating	55,999	1,055	128,589
Computer	912	-	924
Total supplies	57,655	1,055	130,256
Insurance	15,187	-	23,709
Other	13,711	-	746
Total operating expenses	<u>\$ 812,505</u>	<u>\$ 112,302</u>	<u>\$ 1,507,292</u>

**Other Supplemental Information**  
**Enterprise Fund - Water and Sewer Fund**  
**Schedule of Operating Expenses**  
**Year Ended June 30, 2006**

Activity			Year Ended June 30	
Sanitary Sewer Repair	Solid Waste Collection	Sewer Construction	2006	2005
\$ 31,840	\$ -	\$ -	\$ 575,713	\$ 515,783
11,291	-	-	305,611	274,178
43,131	-	-	881,324	789,961
23,528	-	-	67,734	44,181
-	-	-	95,603	137,755
23,528	-	-	163,337	181,936
-	-	-	56,727	39,918
-	-	-	306,929	214,156
-	-	-	7,517	6,229
-	-	-	371,173	260,303
-	442,001	-	442,001	437,539
-	-	3,966	737,172	764,263
-	-	-	1,038	1,038
-	-	3,966	738,210	765,301
3,607	-	-	67,968	84,453
-	-	-	42,000	42,000
3,607	-	-	109,968	126,453
-	-	-	1,487	1,231
569	-	-	186,212	143,607
-	-	-	1,836	1,382
569	-	-	189,535	146,220
-	-	-	38,896	32,946
-	-	-	14,457	750
<b>\$ 70,835</b>	<b>\$ 442,001</b>	<b>\$ 3,966</b>	<b>\$ 2,948,901</b>	<b>\$ 2,741,409</b>

## **Statistical Information**

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# City of South Lyon, Michigan

## Schedule of Taxes Levied, Collected, and Returned Delinquent - 2005 Tax Roll June 30, 2006

	<u>Final Levy</u>	<u>Taxes Collected</u>	<u>Returned Delinquent</u>	<u>Percent Collected</u>
<b>Taxable Value:</b> \$395,977,880				
City of South Lyon	\$ 5,635,166	\$ 5,496,437	\$ 138,728	97.54
Specials	6,349	3,354	2,995	52.83
Downtown Development Authority	47,813	38,404	9,408	80.32
Administration fee	102,677	99,881	2,796	97.28
Oakland Community College	586,203	573,829	12,374	97.89
South Lyon Community Schools	4,462,453	4,327,406	135,046	96.97
State education	2,234,226	2,184,407	49,819	97.77
Oakland County	<u>2,975,544</u>	<u>2,895,533</u>	<u>80,011</u>	97.31
Total	<u><b>\$ 16,050,431</b></u>	<u><b>\$ 15,619,251</b></u>	<u><b>\$ 431,177</b></u>	<b>97.31</b>

# City of South Lyon, Michigan

## Continuing Disclosure Undertaking Fiscal Year July 1, 2005 - June 30, 2006

### A. Taxable Value - Fiscal Year 2006-2007

**\$395,977,880**

### B. Taxable Value by Use and Class - Fiscal Year 2006-2007:

Use	Taxable Value	Percent of Taxable Value	SEV	Percent of SEV
Commercial	\$ 31,679,680	8.00	\$ 43,886,010	9.40
Industrial	6,224,220	1.57	8,858,360	1.90
Residential	343,214,050	86.68	399,429,340	85.52
Personal	14,859,930	3.75	14,859,930	3.18
Total	<b>\$ 395,977,880</b>	<b>100.00</b>	<b>\$ 467,033,640</b>	<b>100.00</b>
Class				
Real property	\$ 381,117,950	96.25	\$ 452,173,710	96.82
Personal property	14,859,930	3.75	14,859,930	3.18
Total	<b>\$ 395,977,880</b>	<b>100.00</b>	<b>\$ 467,033,640</b>	<b>100.00</b>

### F. & G. Property Tax Rates by Governmental Unit - Fiscal Year 2006-2007

City of South Lyon	Rate	City of South Lyon	Rate
General operation	8.5800	Huron Clinton Authority	.2146
Capital improvements	2.0000	Oakland County	4.4315
Building Authority	.2700	Intermediate schools	3.3690
Building Authority - Land	.2800	Oakland Community College	1.5844
Land acquisition	.1200		
Debt service - Sewer G.O.	2.5000		
		South Lyon Community Schools	18.0000
		State education	6.0000
		South Lyon school debt	8.5000
Total City of South Lyon	<b>13.7500</b>	Total by governmental units	<b>57.2079</b>
District library	1.0338		
Library debt	0.3246		

# City of South Lyon, Michigan

## Continuing Disclosure Undertaking (Continued) Fiscal Year July 1, 2005 - June 30, 2006

### H. Property Tax Collections - Fiscal Year 2005-2006 (as of 6-30-06) - 97.31% for Fiscal Year Ending 2006: In Process of Collection

### I. 10 Largest Taxpayers - Fiscal Year 2005-2006

Taxpayer	Principal Product or Service	Taxable Value
Colonial Hunt Club (Phase V)	Co-op	\$ 20,234,010
Colonial Acres Development (Phases I-IV)	Co-op	11,097,580
Brookwood Farm, LLC	Rental properties	4,477,620
Michigan Seamless Tube	Tubular mill	3,785,180
Brookdale Assoc. LTD Partners	Rental properties	3,518,370
Detroit Edison	Utility	3,154,670
J&R Management	Rental properties	2,560,260
Wolverine Property Investment	Mobile homes park	2,307,840
Charleston Park Singh	Subdivision	1,856,120
Hadley & Associates	Shopping plaza	1,853,480
Total		<u><u>\$ 54,845,130</u></u>

### J. Distributable Aid - State-shared Revenue - Fiscal Year 2005-06: \$849,891

### K. Legal Debt Margin

The following table reflects the amount of additional debt the City may legally incur as of June 30, 2006:

Debt limit (I)		\$ 46,703,364
Debt outstanding	\$ 20,585,353	
Less exempt debt	<u>-</u>	<u>20,585,353</u>
Legal debt margin		<u><u>\$ 26,118,011</u></u>

(I) 10 percent of the City's \$467,033,640 SEV for the fiscal year ended June 30, 2007

Source: Municipal Advisory Council of Michigan and the City of South Lyon

# City of South Lyon, Michigan

## Continuing Disclosure Undertaking (Continued) Fiscal Year July 1, 2005 - June 30, 2006

### Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of June 30, 2006.

To the extent necessary, the City may levy taxes on all taxable property within its boundaries without limitation as to rate or amount to pay the principal of and interest due on the bonds in the following table, which are designated as "UT." However, the City's ability to levy tax to pay the debt service on the bonds, which are designated as "LT," is subject to applicable charter, statutory, and constitutional limitations.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self-supporting</u>	<u>Net</u>
General obligation bonds -			
Dated September 1, 2000 (UT)	\$ 1,040,000	\$ -	\$ 1,040,000
Building Authority bonds:			
Dated June 9, 2005 (LT)	355,000	-	355,000
Dated July 1, 1999 (LT)	1,015,000	-	1,015,000
Dated September 1, 1996 (LT)	<u>1,120,000</u>	<u>650,160</u>	(1) <u>469,840</u>
Subtotal	2,490,000	650,160	1,839,840
State Revolving Fund Loan -			
Dated March 27, 2003 (UT)	16,663,161	-	16,663,161
Installment purchase obligations:			
Dated June 7, 2000 (LT)	232,192	-	232,192
Dated November 28, 2005 (LT)	<u>160,000</u>	<u>-</u>	<u>160,000</u>
	<u>392,192</u>	<u>-</u>	<u>392,192</u>
Total	<u><b>\$ 20,585,353</b></u>	<u><b>\$ 650,160</b></u>	<u><b>\$ 19,935,193</b></u>
Per capita net City direct debt (2)			\$ 1,968.43
Percent of net direct debt to SEV (3)			4.23%

# City of South Lyon, Michigan

## Continuing Disclosure Undertaking (Continued) Fiscal Year July 1, 2005 - June 30, 2006

Overlapping Debt (4)	Gross	City's Share as Percent of	
		Gross	Net
South Lyon Schools	\$ 214,290,000	22.11	\$ 47,379,519
Oakland County	113,000,096	0.63	711,901
Oakland Intermediate School District	9,215,000	0.63	58,055
Oakland Community College	10,050,000	0.64	64,320
Salem-South Lyon District Library	1,675,000	54.72	916,560
Totals	<u>\$ 348,230,096</u>		<u>\$ 49,130,355</u>

Per capita net overlapping debt (2) \$ 4,895.41  
Percent of net overlapping debt to SEV (3) 10.52%

Per capita net direct and overlapping debt (2) \$ 6,865.84  
Percent of net direct and overlapping debt to SEV (3) 14.75%

(1) Represents 58.05 percent of the 1996 Building Authority Bonds, which is being paid by the South Lyon Schools

(2) Based on the City's 2000 Census population of 10,036

(3) Based on \$467,033,640, which is the City's SEV for the fiscal year ended June 30, 2006

(4) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

Source: Municipal Advisory Council of Michigan and the City of South Lyon

# **City of South Lyon**

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**Federal Awards  
Supplemental Information  
June 30, 2006**

# City of South Lyon

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of South Lyon

We have audited the basic financial statements of the City of South Lyon for the year ended June 30, 2006 and have issued our report thereon dated August 18, 2006. Those basic financial statements are the responsibility of the management of the City of South Lyon. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of South Lyon taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

August 18, 2006

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Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and  
Members of the City Council  
City of South Lyon

We have audited the financial statements of the City of South Lyon as of and for the year ended June 30, 2006 and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of South Lyon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of South Lyon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and  
Members of the City Council  
City of South Lyon

This report is intended solely for the information and use of the city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

August 18, 2006

**Report on Compliance with Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Honorable Mayor and  
Members of the City Council  
City of South Lyon

**Compliance**

We have audited the compliance of the City of South Lyon with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. The major federal program of the City of South Lyon is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of South Lyon's management. Our responsibility is to express an opinion on the City of South Lyon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of South Lyon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of South Lyon's compliance with those requirements.

In our opinion, the City of South Lyon complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

To the Honorable Mayor and  
Members of the City Council  
City of South Lyon

### **Internal Control Over Compliance**

The management of the City of South Lyon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of South Lyon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

August 18, 2006

# City of South Lyon

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality - Capitalization Grants for Drinking Water State Revolving Funds	66.468	5206-01	\$ 17,250,000	\$ 509,973
U.S. Department of Housing and Urban Development - Passed through Oakland County, Michigan - Community Development Block Grant	14.228	N/A	85,000	85,000
Passed through Oakland County, Michigan - Emerald Ash Borer Tree Planting Grant	10.664	N/A	20,000	<u>20,000</u>
Total federal awards				<u><b>\$ 614,973</b></u>

## City of South Lyon

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### **Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2006**

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 105,000
Federal revenue not reported as such in the financial statements - Capitalization Grants proceeds for State Revolving Fund *	<u>509,973</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><b>\$ 614,973</b></u>

\* Amount is included in long-term debt in the basic financial statements

# **City of South Lyon**

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## **Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006**

### **Note - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of South Lyon and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

# City of South Lyon

## Schedule of Findings and Questioned Costs Year Ended June 30, 2006

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? \_\_\_\_\_ Yes   X   No
- Reportable condition identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

#### Federal Awards

Internal control over major program:

- Material weakness identified? \_\_\_\_\_ Yes   X   No
- Reportable condition identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

# **City of South Lyon**

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## **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None



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August 18, 2006

To the Honorable Mayor and  
Members of the City Council  
City of South Lyon  
335 South Warren  
South Lyon, MI 48178

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of South Lyon for the year ended June 30, 2006. As part of our audit, and in addition to our audit report, we have the following comments and recommendations for your consideration.

### **Financial Results/Plans**

The City's General Fund fund balance increased in the current year from approximately \$2,967,000 to \$3,125,000, the first increase since 2003. The City of South Lyon continues to be in a position to withstand the very difficult financial climate that exists today because of the City's diligence and foresight over many years. As we know you are well aware, the 2006-2007 fiscal year will continue to be challenging, and we encourage the City to continue to closely monitor this year's budget.

### **Water and Sewer Rates**

It has been several years since the City has increased the charges for water and sewer services. During the year ended June 30, 2006, water and sewer operations did not charge an amount sufficient to cover operational costs, resulting in a cash flow deficit of approximately \$253,000. Additionally, the current rate structure does not appear to provide for future capital improvements. Unrestricted net assets of approximately \$2,300,000 are available to cover additional shortfalls; however, we encourage the City to review the current rate structure and make changes if necessary.

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August 18, 2006

## **Internal Control**

As a result of the City receiving in excess of \$500,000 of federal monies for the Waste Water Treatment Plant construction and other programs, we were required to perform an A-133 single audit, which is a more comprehensive compliance audit related to the federal funds received through the various programs. Based on its size, we again selected the State Revolving Fund financing program for testing. Testing performed in conjunction with this A-133 audit revealed no findings that would require disclosure in the supplemental financial statement prepared for the A-133 single audit. We have tested this program for the past three years and have yet to discover a finding. The City should feel a sense of accomplishment on maintaining proper internal controls related to the transactions associated with the State Revolving Fund program.

## **Municipal Finance Act Revisions - Reminder**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end, June 30, 2006, and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

## **State-shared Revenue**

The State's fiscal year 2005/2006 provides for both constitutional and statutory revenue-sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. As with the past several years, revenue-sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at approximately fiscal year 2004/2005 levels.

The governor's proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2004/2005 level.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State's budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue-sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long-term solution to the State's structural deficit in its General Fund, and as

To the Honorable Mayor and  
Members of the City Council  
City of South Lyon

August 18, 2006

long as this condition exists, revenue-sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

August 18, 2006

State-shared revenue accounts for approximately 17.6 percent of the City's total General Fund revenue. The table below details state-shared revenue for the City over the past several years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the City compared to the State's fiscal year 2000.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2001</u>
2000	\$ 358,310	\$ 439,193	\$ 797,503	\$ N/A
2001	408,590	651,258	1,059,848	-
2002	353,377	657,891	1,011,268	(48,580)
2003	298,002	669,031	967,033	(92,815)
2004	207,361	661,763	869,124	(190,724)
2005	182,096	677,555	859,651	(200,197)
2006	161,056	688,835	849,891	(209,957)
2007 (est)	141,735	708,156	849,891	(209,957)

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$142,000 at risk in its General Fund budget based on 2006 funding levels. We will continue to update the City as developments occur. The statutory formula expires in 2007 and requires action by the Legislature.

### **Transportation Matters**

The State experienced lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ended September 30, 2005. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Fund. There is also a concern about the State's forecast for fiscal year 2005/2006. We encourage the City to be conservative in budgeting Major and Local Street Fund's revenue.

In 2004, the legislature modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund if a surplus existed. As a condition of the transfer, the amended law requires that certain conditions be met including the adoption of an asset management process for the Major and Local Street systems. It is important to note that these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. There is also currently legislation proposed that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

August 18, 2006

As part of the governor's fiscal year 2006/2007 budget proposal, a road funding program has been introduced which would provide approximately \$400 million to be used by local governments as federal match monies on local road projects. The program requires legislation before it becomes effective.

## **Tax Matters**

The governor and the Legislature spent considerable time in 2005 on business tax reform with specific focus on the Michigan Single Business Tax. The final approved business tax reform plan appeared to spare local governments from any negative impact of the changes. A key component to this plan is a significant credit on personal property taxes paid by certain businesses. Many questions have arisen from these proposals such as who determines the property that qualifies for credit, how will local governments be reimbursed by the State for the lost tax revenue as is the stated intention, etc. Currently, the plan as passed provides for a personal property tax credit for certain businesses on their Michigan single business tax return. After the approval of these changes, new discussion and debate is ongoing regarding the complete repeal of the Michigan single business tax. While single business tax is not the source of revenue-sharing payments to local governments, the repeal of the single business tax without replacement revenue or a corresponding reduction in state spending may impact the State's ability to fund statutory revenue sharing.

The loophole involving the inconsistent treatment of the assessment of commercial property is commonly referred to as the "WPW Case" involving the City of Troy and was discussed in the fall legislative session. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This method of assessing commercial property (known as the "occupancy method") has been used by assessors to give commercial property owners a break when occupancy of their property has decreased and then to restore the taxable value of the property consistent with previous levels when occupancy increases. There are currently two bills in the House (House Bills 5096 and 5097) that have received hearings and consideration which would address this matter.

## **Personal Property Tax**

With the adoption several years ago by the State Tax Commission of new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments), many communities elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables, which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities.

August 18, 2006

There appears to be considerable inconsistency relative to how the utility companies are proceeding related to refunds due from local governments (both between utilities and with respect to how a particular utility is handling different local governments). Some matters are settled and resolved. Other open matters are at different stages. We have heard that a utility had made a settlement offer to certain local units at 75 percent of the amount owed them. In relation to this matter, during the proceedings related to change in the multiplier tables, it was discovered that certain utilities may have underreported their self-constructed assets, creating the potential that monies were due to local governments for underpaid property taxes. Earlier during the resolution of the multiplier table issue, it appeared that the resolution of both the multiplier table issue and the issue of underreported self-constructed assets by the utilities would be resolved together. It appears that the State Tax Commission has separated these matters, leaving the door open for the utilities to proceed with collection efforts on judgments outstanding related to the multiplier tables.

We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

### **Property Assessment Cap**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2006	3.3%
2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The 2005 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2006. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

August 18, 2006

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2006, the City's Headlee maximum property tax rate for its operating levy was 13.75 mills even though City Charter would allow the City to levy 20 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

### **Telecommunications Act Changes**

Changes were made by the Legislature to restrict the ability of local governments to engage in telecommunications activities. Additionally, threats exist at both the federal and state level to restrict or eliminate the ability of local governments to regulate and franchise cable television, which would impact franchise fees received by local governments. We encourage the City to monitor their developments closely given the impact that a reduction in cable franchise fees could have on the City's budget.

To the Honorable Mayor and  
Members of the City Council  
City of South Lyon, Michigan

8

August 18, 2006

We would like to thank the City and all those involved with the audit process for their assistance. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the continued opportunity to be of service.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in cursive script, reading "Leslie J. Pulver".

Leslie J. Pulver

A handwritten signature in cursive script, reading "Brian J. Camiller".

Brian J. Camiller